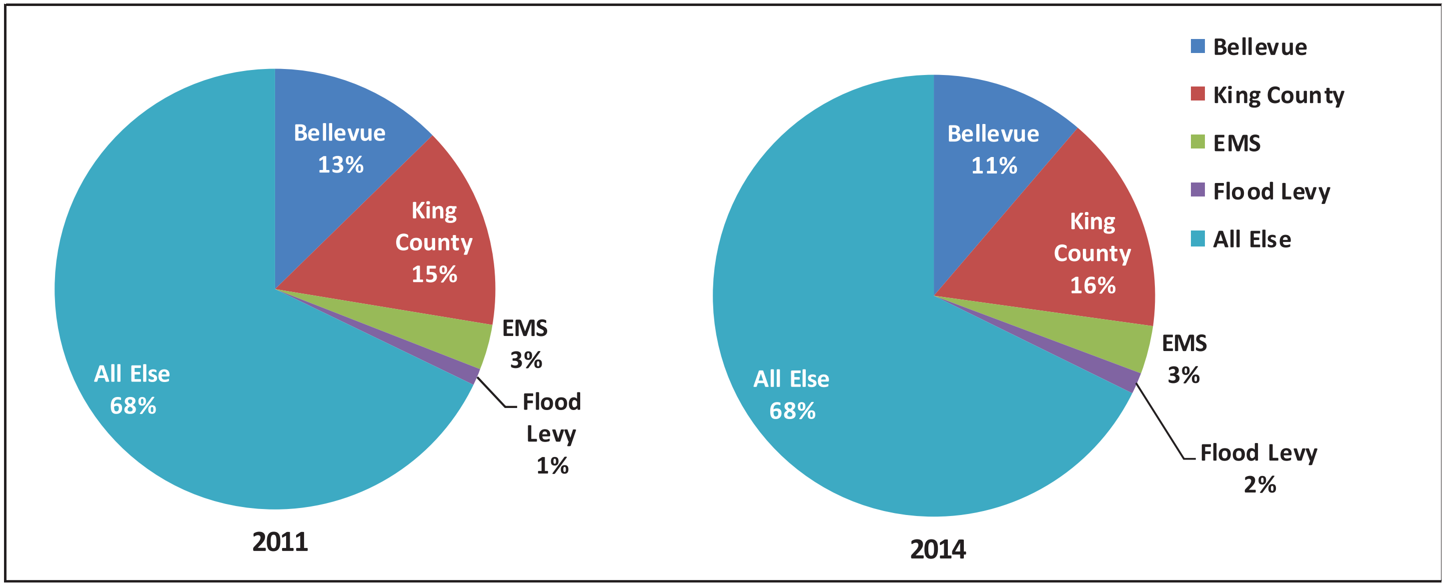
Property Tax Distribution Comparison 2011 to 2014



From 2011 to 2014 Bellevue's proportion of the Property Tax Levy has declined nearly 2% (values above are rounded up) as a proportion of the total property tax. This is because King County and the King County Flood Zone Levies have risen while the Bellevue Levy has remained constant, with except for allowances for increases in new construction, through the years. With Property Tax, a Levy amount is adopted rather than a Levy rate (rate per $1,000 of Assessed value). Levy rates are determined by dividing assessed value divided by the requested levy then multiplying by 1,000. Since property rates are determined in this way rates may go up or down regardless of a change in the adopted levy. As an example the Bellevue Tax Rate has dropped from 2011 to 2014, however the actual levy has increased as assessed value has increased during that period.

Overview of Debt Financing and Voter Initiatives

Council Budget Retreat March 2014

Debt Financing

Debt financing involves borrowing money and making periodic debt service payments over many years to pay back the lender. Jurisdictions must comply with debt limits set by State law and, in many cases, adopt more stringent policy limits (such as Bellevue's policy limits). Attached to this overview is the status of the current debt limits under Bellevue Council policy. Annual debt payments to repay the loan can be supported by existing revenues, such as sales tax, and/or new revenues, such as property tax increases ("voted levy") or LID special assessments.

Advantages

- Provides funding for projects which would otherwise be delayed
- Achieves intergenerational equity – by spreading out debt payments, projects are paid for by the people who benefit from/use them
- Provides funding to invest in multiple projects and/or large projects at the same time
- Provides savings when interest rates are lower than construction inflation
- Can be incentive to plan for the future – need to plan for future debt payments and other capital needs.

Disadvantages

- Interest and debt issuance costs
- Too much debt could impact bond ratings
- Future revenues are committed to repayment of debt, therefore providing less flexibility in the future.

Types of Debt and Projects they Finance

General Obligation (GO) Bonds – Most basic form of debt used in public finance. GO bonds are backed by the full faith and credit of the local government. GO debt is viewed favorably by the investment community because the full faith and credit pledge reduces the perceived risk of default compared to other types of debt. There are two types of GO bonds available, Unlimited Tax General Obligation (UTGO) bonds which are supported by voter-approved property tax increases and Limited Tax General Obligation (LTGO) bonds, or "Councilmanic debt", which are secured by taxes, but not subject to voter approval.

Types of projects typically financed using GO bonds:

- Infrastructure that benefits the general public
- Large, visible, long-lived assets.

Bellevue's use of GO bonds:

- New City Hall – supported by existing tax streams
- Supplemental CIP – supported by sales tax (*see note below*)
- Local Revitalization Funding (LRF) for NE 4th --involves the issuance of GO Bonds supported by sales tax from the state through the LRF program.

Note: Because the property tax derived from the City's banked capacity cannot be used to fund debt, the Supplemental CIP and the M&II bonds are actually funded from sales tax. The consecutive property tax increases (2% in 2007, 2% in 2008, and 3% in 2009) were offset by an equal reduction in the sales tax that is distributed to the City's General Fund, thereby creating sales tax as a funding source for the debt.

- Revenue Bonds – Used to finance projects for an enterprise that is self-supporting. Debt is repaid from user fees generated by the facility being built. Interest rates are generally higher than for GO Bonds since they are not backed by the full faith and credit of the local government.

  Types of projects typically financed using revenue bonds:
  - Public utilities, parking structures, golf courses, convention center facilities, toll roads and bridges.

  Bellevue's use of revenue bonds:
  - Construction of a municipal golf course
  - Acquisition of land for the construction of a convention center
  - Construction of public utility facilities.

- Local Improvement Districts (LID) – Used to finance projects that provide a special benefit to properties within a defined boundary (Special benefit is the difference in fair market value of the property with and without the project). LIDs may be formed by petition of property owners or by Council resolution. Under no circumstances can bondholders collect from the City's General Fund, unless the City stipulates.

  Types of projects typically financed through LIDs:
  - Street improvements, street lights, sidewalks, water and sewer systems, and undergrounding of utilities.

  Bellevue's use of LIDs:
  - Since the early 1950s, and with a particular emphasis during the 1970s and 1980s, more than 100 LIDs were formed. Many of the early LIDs funded utility infrastructure. Later LIDs focused on transportation projects such as:
    - Sidewalks on 118th Avenue NE (1973)
    - Roadway widening on 140th Avenue NE (1979)
    - Street and intersection improvements to NE 29thPlace (1981)
    - Construction of new roadway – 102nd Avenue SE (1983)
    - Intersection expansion at Northup Way and NE 33rd (1986)
    - Widening of NE 8th Street (1989).
  - In 2010 the Wilburton Connections LID (for the NE 4th Street Extension and 120th Avenue NE widening project) was protested by the benefiting property owners and the LID did not move forward.

- Revolving Loan Funds – Washington State established the Public Works Trust Fund to provide, on a competitive basis, low-interest loans to help local governments address critical infrastructure needs for water, sewer, stormwater, roads, bridges, and solid waste/recycling systems. In recent years the program has had its funding reduced at the state level, yet prior to that it has prioritized non-roadway infrastructure for funding.

  Bellevue's use of PWTF loan program:
  - 1988 - $1,000,000 for NE 8th Street

- 1990 - $1,166,040 for erosion control and slope stabilization at 6 locations
- 1991 - $348,000 for Bel-Red Pipeline
- 1993 - $434,000 for Coal Creek Parkway Sediment Pond
- 1994 - $857,000 for the Clyde Hill Reservoir Transmission Main
- 2006 - $750,000 for NE 24th Street.

- Short-term Financing – Used to bridge the gap in funding from project implementation to receipt of permanent funding.

  Types of short-term financing tools:
  - Line-of-credit (LOC) – Bellevue has a history of using LOCs for cash flow borrowing
  - Interfund Loans – Council policy allows for the Finance Director to authorize loans not exceeding six months
  - Bond Anticipation Notes (BANS) Tax Anticipation Notes (TANS), and Revenue Anticipation Notes (RANS) –These are all short-term financing tools which enable governments to borrow money to invest immediately in capital projects and to allow them to meet cash flow needs. In the case of BANs, these are issued in anticipation of a larger bond issue; TANs and RANs are issued in anticipation of future taxes and/or revenues that will be used to repay the note.

Additional information on the City's debt capacity is attached.

Voter Intiatives

Voter initiatives are another major funding mechanism available to government. Depending on size of package, Council has a number of financing tools available to finance a voter initiative package. The two major tools are voter-approved bonds and a voter-approved levy. While State law limits the amount of voted debt allowed for voter initiative packages, Bellevue currently does not have any voter approved general obligation debt. The following provides a summary of the two major tools:

- Voter approved bonds, also known as Unlimited Tax General Obligation Bonds (UTGO), may be used for capital purposes only (e.g., engineering, land acquisition, construction and development) and are typically repaid over 20 years through increased property taxes.
  - Pros:
    - Provides capital funding up front
    - Bonds are the more appropriate financing mechanism for larger voter packages as they produce a lower annual cost per homeowner due to spreading cost over 20 years.
  - Cons:
    - Voter approved bonds cannot be used for ongoing maintenance.
    - Requires separate M&O ballot measure (if funding is needed to maintain acquisition). Two ballot measures can confuse voters.
    - Bonds require supermajority approval (60%) and the total number of votes cannot be less than 40% of the number of votes cast in the last general election.
    - Counts against the City's voted debt capacity.

Overview of Debt Financing and Voter Initiatives

Council Budget Retreat March 2014

- Voter approved levy can be used for capital purposes (e.g., engineering, land acquisition, construction and development), but also for ongoing maintenance and operation needs. "Pay as you go" operating or capital funding over duration of levy.
    - Pros:
        - Can incorporate permanent M&O element within single ballot measure
        - A levy requires simple majority approval (50% + 1).
        - Best used on smaller projects, otherwise rise in levy would have a greater impact on households.
    - Cons:
        - For larger capital investment, the levy impact would be greater on households than the voter approved bond.

Attached is Pacifica Law Group's publication titled "*Voted General Obligation Bonds: A Guide for Washington Cities*".

Voted General Obligation Bonds: A Guide for Washington Cities

General Obligation Bonds. Washington cities may issue general obligation bonds under state law, including:

- Councilmanic or limited tax general obligation bonds ("LTGO" bonds), issued within a city's nonvoted debt capacity. LTGO bonds are paid from regular property taxes and other available city funds.
- Voter-approved unlimited tax general obligation bonds ("UTGO" bonds), issued within a city's voted debt capacity. UTGO bonds are paid from voter-approved "excess levies", outside the constitutional and statutory limitations that apply to regular property taxes.

Constitutional Authority. The ground rules for issuing UTGO bonds are set forth directly in Article VII, section 2(b) of the Washington State Constitution, which provides that UTGO bonds may be issued:

- "By any taxing district otherwise authorized by law to issue general obligation bonds for capital purposes, for the sole purpose of making the required payments of principal and interest on general obligation bonds issued solely for capital purposes, other than the replacement of equipment..."
  - This provision permits UTGO bonds to be issued only for ***capital purposes*** (not including equipment replacement). Capitalizable costs may be funded, including engineering, architectural and other soft costs, costs of issuance and, subject to certain limitations, capitalized interest.

- "when authorized so to do by majority of at least three-fifths of the voters of the taxing district voting on the proposition to issue such bonds and to pay the principal and interest thereon by annual tax levies in excess of the limitation herein provided during the term of such bonds..."
  - This provision requires 60% voter approval and authorizes "excess" property tax levies to pay the bonds.

- "submitted not oftener than twice in any calendar year, at an election held in the manner provided by law for bond elections in such taxing district".
  - This provision limits the frequency of ballot submittals to twice a year and defers to general election laws for ballot and election requirements.
  - State and local election law and regulations govern the specific steps involved in placing a ballot measure before the voters, and in communicating with voters.

Additional provisions require "validation" of the vote (the total number of voters in the election must be at least 40% of the total voters in the prior *general* election) and permit UTGOs to be refinanced without returning to the voters for approval.

Election Timeline. Cities may seek voter approval to issue UTGO bonds at any of the four election dates a year. For 2014, the election dates are as follows:

- **special elections on February 11 and April 22;**
- **a primary election on August 5; and**
- **the general election on November 4.**

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Voted General Obligation Bonds: A Guide for Washington Cities

A city must meet several deadlines well in advance of the election, to place a bond measure on the ballot.

Election Resolution. The city council must pass an election resolution. The election resolution:

- Proposes the form of the ballot measure requesting voter approval for the issuance of UTGO bonds and excess levies to pay debt service on the bonds. Under RCW 29A.36.071, the ballot language consists of:
  - An identification of the enacting legislative body (the city council);
  - A statement of the subject matter;
  - A concise description of the measure (no more than 75 words long, prepared or approved by the city attorney); and
  - A question (essentially, whether or not the proposition should be approved).

- Describes the capital project to be funded and outlines the circumstances, if any, under which the project may be changed. The city may reserve flexibility to reduce or expand the project scope, substitute project components or otherwise respond to changed circumstances over time;
- Sets certain parameters for the bonds, including the maximum principal amount and term; and
- Authorizes a request to the county auditor to submit the ballot proposition to the voters at a special election to be held on one of the statutory special, primary or general election dates.

The approved election resolution must be filed with the county auditor.

For the 2014 election dates, the first special election filing deadline was December 27, 2013 and the second is March 7, 2014. The primary election filing deadline is May 9, 2014. The general election filing deadline is August 5, 2014.

Voters Pamphlet. Under RCW 29A.32.241, a local voters' pamphlet includes, among other things:

- The text of each measure;
- An explanatory statement stating the effect of a ballot measure, if passed into law (in King County, the explanatory statement may not be more than 250 words) prepared and reviewed by the city attorney; and
- Arguments for and against the measure
  - Submitted by pro/con committees;
  - Selected pursuant to RCW 29A.32.280 (appointed by the city council not later than 45 days before the publication of the pamphlet).

It is important to review the county administrative rules regarding elections to understand the timeframe and other requirements of the voters' pamphlet.

Public Disclosure Commission Rules. As always, the city must abide by Public Disclosure Commission statutes and regulations, in connection with communications or use of resources regarding the ballot measure.

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DEBT CAPACITY

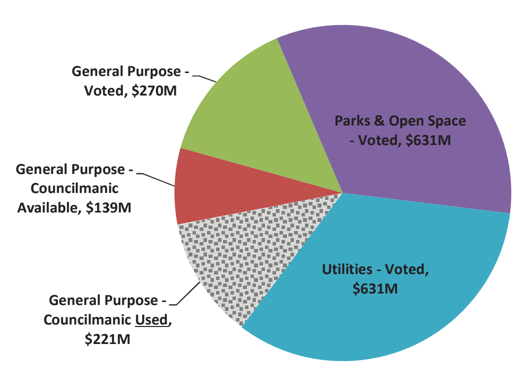
Bellevue's Debt Capacity

Based on statutory limit (RCW), the City's current available debt capacity as of December 31, 2013 was $2.5 billion. Of this amount, $319 million is available for General Purpose Councilmanic debt.

In addition to the limitations required by state law, Council decided to take a more conservative approach several years ago and imposed further policy limits on the City's use of debt to assure strong financial health. The table and graph below illustrate further restrictions on the City's use of debt and the resulting modified debt capacity.

	% of Assessed Value		
Type of Debt	**Statutory Limitations**	**Policy Limitations**	**Policy Limit Available**
General Purpose:	2.5%	1.75% ($631M)	1.14% ($409M)
Non-Voted (Councilmanic)	1.5%	1.00% ($360M)	0.39% ($139M)
Voted	1.0%	0.75% ($270M)	0.75% ($270M)
Parks and Open Space - Voted	2.5%	1.75% ($631M)	1.75% ($631M)
Utilities – Voted	2.5%	1.75% ($631M)	1.75% ($631M)
Revenue	No Limit	No Limit	No Limit
Local Improvement District	No Limit	No Limit	No Limit

88% Debt Capacity Available (Policy Limit)
Total Available $1.7 Billion
(as of December 31, 2013)



Staff contact: Zemed Yitref, Investment & Debt Manager

Background

- State statutes allow cities to issue general obligation debt at 2.5% of their assessed valuation for each of the following three purposes:
  - General Purposes – can be used for any purpose allowed by law - voted or non-voted ("Councilmanic") debt.
  - Parks and Open Space – used for parks and open space and/or recreation facilities - must be approved by the voters.
  - Utilities – used for utility infrastructure - must be approved by the voters.
- Bellevue Guiding Principles for use of debt:
  - Maintain Aaa bond rating.
  - Long-term debt should generally be issued only for long-lived assets.
  - Financial management plan for repayment of debt is essential.
  - Review of debt and refinancing when conditions are favorable is essential to effective debt management and capital planning.
- City of Bellevue's Current Existing Debt

Outstanding Non-Voted Councilmanic Debt ($ in millions)

1995 Convention Center	$2
2003 Metro Site	1
2004 City Hall	1
2004 City Hall II	4
2008 Supplemental CIP	11
2010 Marina Refunding	2
2010 Convention Center Refunding	9
2010 Limited GO (MII)	11
2012 LTGO Refunding I (City Hall)	55
2012B LTGO Refunding II (City Hall)	43
2012 Limited GO (Transit/LRF)	69
1994 & 1994 BCCA Lease/Purchase	13
Total Debt Outstanding	$221